



**Insurance Institute  
of Michigan**

**Low Cost Auto Policy – SB 514**

**Testimony of Peter A. Kuhnmuensch, Executive Director**

**March 13, 2012**

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- The policies should adopt and track any subsequent no-fault reforms which may be adopted by the State Legislature.
- The rate established for the low cost policies should be actuarially sound.



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# Low Cost Auto Insurance Policy Coverage Issues

### -the simple math-

Under the proposed low cost auto insurance policy pilot, qualifying consumers could purchase PIP options of \$50,000 and \$100,000 in medical coverage as part of a no-fault auto policy. At \$50,000 in coverage, 94.4% of all accident related medical claims would be covered and at \$100,000 in coverage, 97.3% of all accident related medical claims would be covered.<sup>1</sup> Of the remaining claims, or between 2.6% and 5.6% of all accident claims, the injured party has several options available to them to help pay for their medical costs.

These options include the following:

1. If covered by private health insurance through employment or direct purchase by the consumer, any excess medical claims will likely be covered under the terms of those policies.
2. If covered by Medicare, Military or other public insurance, any excess medical claims will be covered by those policies.
3. If currently on Medicaid, excess medical claims will be covered under the terms of that coverage.
4. Accident victims can sue a responsible party for excess economic losses including medical bills not covered by insurance.

## What Does This Mean in Real Numbers?

### The Simple Math:

Under the proposed insurance reforms, the minimum coverage option is \$50,000 in PIP. At this level of coverage, 94.4% of claims are covered by the no-fault policy. Of the remaining 5.6% of all claims, 61.1% are covered by private health insurance<sup>2</sup>, 17.3% are covered by Medicare, Military or Other public insurance<sup>2</sup>, and 10.9% are covered by Medicaid/CHIP coverage<sup>2</sup>. This leaves 10.7% of the 5.6% of all claims with the possibility of medical claims not covered by existing insurance. This amounts to 0.5992% or less than one percent of all claims, if every eligible consumer selected the minimum \$50,000 in coverage.

1. Private Passenger Automobile, Analysis of No-Fault Reforms, On behalf of the Insurance Institute of Michigan by Michael J. Miller, FCAS, MAAA; EPIC Consulting, LLC, October 2007
2. Center for Healthcare Research & Transformation, Impact of Health Reform on Coverage in Michigan, Issue Brief 2010.



# Impact of Health Reform on Coverage in Michigan

The Patient Protection and Affordable Care Act (PPACA, or the Act) will affect the picture of coverage in Michigan in many different ways.

While it is relatively easy to project the impact of some components of the Act (e.g., the number who will be eligible for Medicaid after 2014), it is more difficult to project many other elements (e.g., how many of the eligible will actually enroll in Medicaid). In this brief, we try to give a picture of the impact of the PPACA, had it been fully implemented and in effect in 2007/2008<sup>1</sup> (the period for which we have the most recent, comprehensive data on health coverage in the state).

It is important to understand that the regulations for most of the provisions of the Act have yet to be written, and Michigan, like other states, will have choices to make about the way various components of the Act are implemented. We made a number of assumptions about those choices to derive the estimates presented here. These estimates are intended to be illustrative of what could happen under the PPACA, and give some dimension to the scope of coverage in the Act and impacts on the most affected groups.

<sup>1</sup> Two-year pooled data are used to ensure adequate sample size to provide more precise estimates of the population.

The Center for Healthcare Research & Transformation (CHRT) sponsors research and public information to promote evidence based care delivery, improve population health, and expand access to care. Housed at the University of Michigan, CHRT is a partnership between U-M and Blue Cross Blue Shield of Michigan to test the best ideas for improving the effectiveness and efficiency of the health care system.

Visit CHRT on the Web at: [www.chrt.org](http://www.chrt.org)



An Overall Picture of Coverage . . . 2

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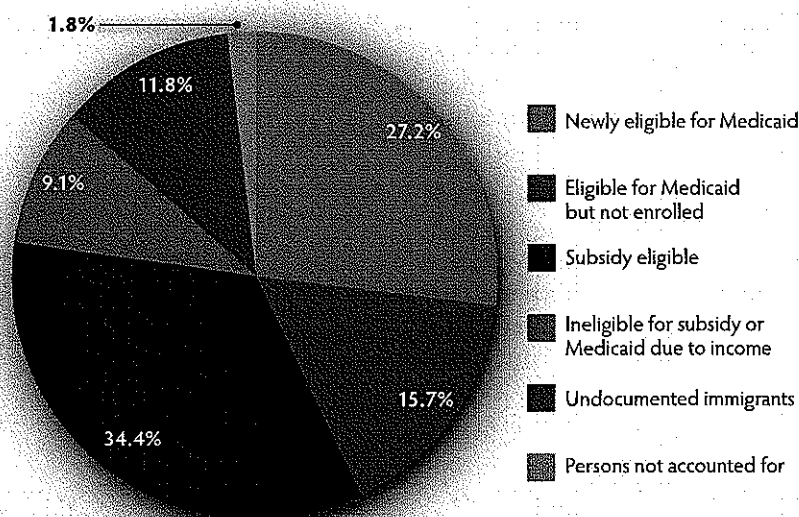
## More Detail on What the State's Health Coverage Would Look Like if Health Reform Were Already in Effect

The Patient Protection and Affordable Care Act requires states to extend Medicaid eligibility to all non-elderly individuals (citizens and legal immigrants who have been in the U.S. for at least five years) with incomes up to 133 percent of the federal poverty level. If health reform had been in effect, twenty seven percent of those uninsured in 2007/2008 would have been newly eligible for Medicaid. It is important to note that a meaningful percentage of the uninsured were already eligible for Medicaid or MICHild prior to health reform but were not enrolled. For example, we estimate that 16 percent of the uninsured (about 165,150 people) in 2007/2008 were eligible for Medicaid but not enrolled. Our estimates assume that both groups will enroll in Medicaid with health reform, i.e. those who have been eligible in the past but not enrolled, and the newly eligible. Our assumption is based on the fact that health reform includes an individual mandate and we are presuming that there will be an increase in enrollment outreach efforts under reform. If these assumptions do not come to pass, however, the number enrolled could be lower than our estimates, and the numbers of uninsured remain higher. Of note, for those who are already eligible for Medicaid coverage (regardless of enrollment status), the federal government will pay the regular Medicaid match rate to states. For those who are newly eligible under expansion rules (and were ineligible for Medicaid on December 1, 2009), the federal government will finance their coverage at 100 percent in 2014 through 2016, 95 percent in 2017, 94 percent in 2018, 93 percent in 2019, and 90 percent in 2020 and for subsequent years.

Thirty-four percent of those who were uninsured in 2007/2008 would not be eligible for Medicaid but would be eligible for a premium subsidy under health reform (if they purchase coverage through the health insurance exchanges). Finally, nine percent of the uninsured—approximately 96,000 people in Michigan—would have been ineligible for both Medicaid and a subsidy under health reform because their incomes were higher than 400 percent of poverty. These individuals would still be subject to the mandate to purchase health coverage and could purchase such coverage from the insurance exchange.

FIGURE IB3.2

**Projected coverage changes among the uninsured assuming Health Reform took effect in 2007/2008**



**Source(s):** U.S. Census Bureau, Current Population Survey (State Health Access Data Assistance Center enhanced) with adjustments and Federation for American Immigration Reform (FAIR). See Cover Michigan 2010 methodology for details.

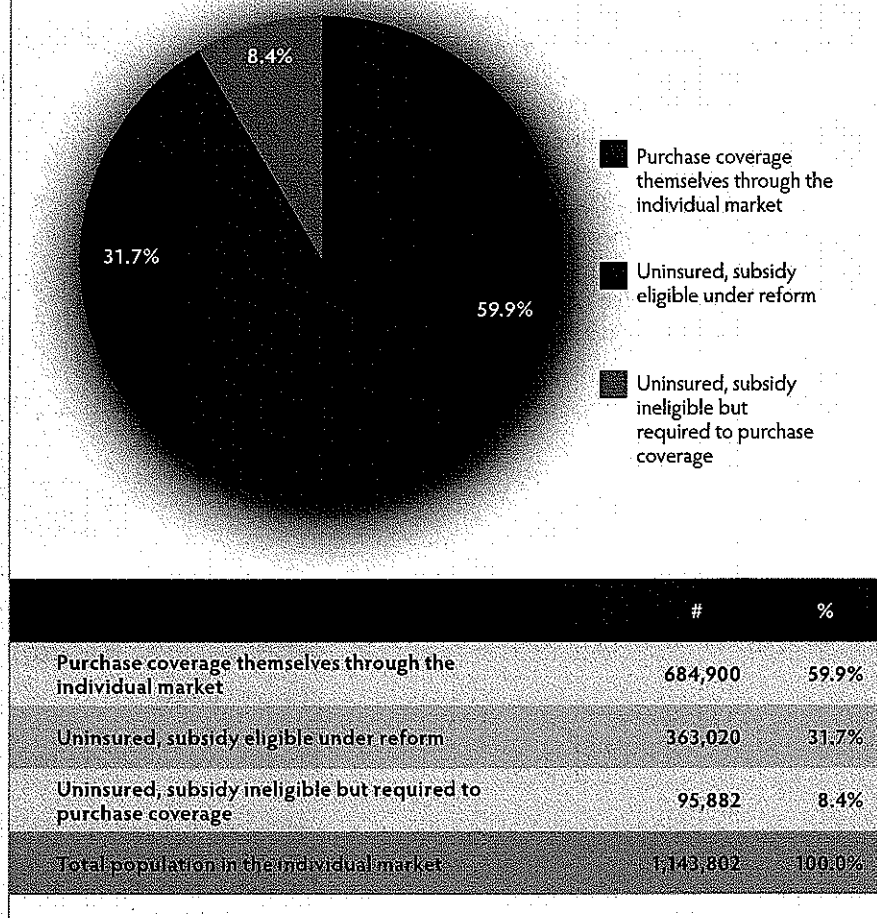
# Coverage Impacts in the Individual Market and For Small Businesses<sup>4</sup>

Under the Patient Protection and Affordable Care Act, two types of insurance exchanges will be established in 2014: one for individuals to purchase coverage (the American Health Benefit Exchange) and an exchange for businesses with up to 100 employees (the Small Business Health Options Program- SHOP). These two exchange types can be administered as one at state option. Before 2016, states have the option of limiting the SHOP exchanges to businesses with 50 or fewer employees, and, beginning in 2017, states can allow businesses with more than 100 employees to purchase coverage from one of these exchanges.

In 2008, about 21.5 percent of Michigan's private businesses were large firms employing almost 2.2 million employees. In that same year, small businesses (i.e. those with 100 or fewer employees) made up 78.5 percent of Michigan's private businesses and about 37 percent of all private sector employees. Of those small businesses, 54.7 percent of them did not offer health insurance in 2008. 33.2 percent of Michigan residents in 2008 worked for small businesses that did not offer health insurance.

In 2007/2008, there were about 684,900 individuals who individually purchased health insurance coverage in Michigan. In addition, as noted earlier, there were 363,020 in 2007/2008 who were uninsured but would become subsidy eligible under health reform to purchase coverage in the exchange and another 95,882 who would not be subsidy eligible but would be mandated to purchase coverage. So, it is likely that the individual insurance exchange could include a total of 1,143,802 individuals had it been in place in 2007/2008.

**FIGURE IB3:4**  
**Insurance Exchange in the Individual Market Michigan, 2008**



**Source:** U.S. Census Bureau, Current Population Survey (State Health Access Data Assistance Center enhanced) with adjustments. See Cover Michigan 2010 methodology for details.

<sup>4</sup> The exchanges under PPACA include small businesses with 100 or fewer workers; however, the Medical Expenditure Panel Survey (MEPS) data defines small businesses as establishments with 99 or fewer workers. This section uses the MEPS data as a proxy for all small business with 100 or fewer workers.



It is very difficult to predict how many total individuals would be enrolled in the exchanges post reform, since we don't know how many who work in small businesses have purchased health insurance coverage themselves in the individual market. However, it is probably fair to say that the population enrolled in the exchanges will likely be more than 1.14 million (the total in the individual market today plus those individuals who will be required to purchase coverage in the future) but less than 2.4 million (the total amount of those in the potential individual market and those who work for small businesses). The number will likely be less than 2.4 million because some of those who work for small businesses today are already counted in the individual market numbers.

### Final Note on Small Businesses

For the next four years, until the SHOP exchanges are set up, businesses with 10 or fewer full-time-equivalent employees earning less than \$25,000 a year on average will be eligible for a tax credit of 35 percent of health insurance costs.<sup>5</sup> Companies with between 11 and 25 workers and an average wage of up to \$50,000 are eligible for partial credits. 58 percent of all private businesses in Michigan (about 119,375 in 2008) had fewer than 10 employees. With about 428,671 employees, these businesses employed about 12.4 percent of Michigan's private sector.

Wage data for these employers are not generally available. However, if all businesses in these size categories in Michigan were wage eligible, a total of 144,401 businesses could be eligible for the tax credit. These businesses employ approximately 766,538 employees.

FIGURE IB3:6

**Private sector establishments and employees by firm size in Michigan, 2008**

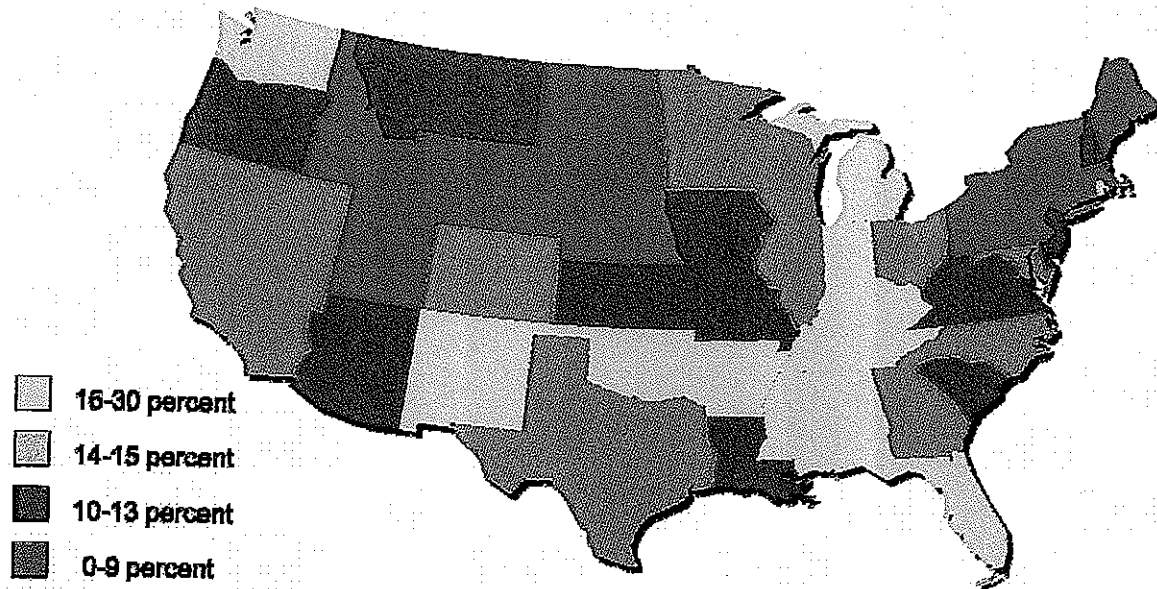
	Small businesses			Large businesses	Total
	Less than 10 employees	10-24 employees	25-99 employees	100 or more employees	
Number of private businesses	119,375	25,026	17,030	44,247	205,678
Businesses as a % of all businesses	58.0%	12.2%	8.3%	21.5%	100.0%
Total number of employees	428,671	337,867	506,077	2,177,358	3,449,973
Employees as a % of all employees	12.4%	9.8%	14.7%	63.1%	100.0%

Source: Medical Expenditure Panel Survey

<sup>5</sup> MEPS provides data for less than 10 employees and between 10 to 24 employees. Although the subsidies that will be available for some small businesses until SHOP exchanges are set up apply to establishments with 10 or fewer employees and 11 to 25 employees, MEPS data is used here to estimate the number of businesses and employees who will be impacted by these subsidies.



## Percent of Motorists Uninsured by State in 2009\*



\*Estimated using UM to BI claim frequency ratios

## Estimated Percent of Uninsured Motorists by State in 2009

State	Uninsured	State	Uninsured	State	Uninsured
Mississippi	28%	Maryland	15%	Virginia	11%
New Mexico	26%	Texas	15%	Delaware	11%
Tennessee	24%	Illinois	15%	South Carolina	11%
Oklahoma	24%	Wisconsin	15%	Wyoming	10%
Florida	24%	Missouri	14%	Oregon	10%
Alabama	22%	North Carolina	14%	Kansas	10%
Michigan	19%	Nevada	13%	Connecticut	10%
Kentucky	18%	Minnesota	13%	North Dakota	9%
Rhode Island	18%	Alaska	13%	South Dakota	9%
Indiana	16%	Louisiana	13%	Utah	8%
Washington	16%	Arizona	12%	Idaho	8%
Arkansas	16%	Iowa	11%	Nebraska	8%
Ohio	16%	Montana	11%	Vermont	7%
Georgia	16%	Hawaii	11%	Pennsylvania	7%
District of Columbia	15%	New Jersey	11%	New York	5%
Colorado	15%	New Hampshire	11%	Maine	4%
California	15%	West Virginia	11%	Massachusetts	4%